

## CHAPTER 7

### PHYSICAL INVENTORY CONTROL

#### A. **GENERAL**

1. This chapter provides procedures, performance objectives, and effectiveness reporting to enhance supply effectiveness by improving the accuracy of inventory control and asset information in the wholesale supply system of the DoD.

2. Basic elements of the physical inventory control program prescribed by this chapter apply to the Military Departments and the Defense Agencies, hereafter referred to as DoD Components, and establish:

a. Uniform procedures, based on existing DoD policy, for maintaining accurate records, conducting physical inventories and location surveys/reconciliations, researching potential inventory discrepancies, and for quality control of work processes affecting inventory accuracy.

b. Management control of all DoD wholesale supply system assets of:

(1) principal items,

(2) package fuels,

(3) secondary items on hand at CONUS and overseas depots as well as other selected distribution system storage sites including contractor-owned and/or contractor-operated facilities when assets are maintained on the DoD wholesale accountable records (excluding loaned materiel which will be accounted for in accordance with chapter 4, section N.), and

(4) ammunition.

c. Comparable measures of performance for cost effective analysis among the various inventory control systems.

d. Reporting procedures necessary to measure the effectiveness of physical inventory control in the DoD supply system.

3. Exclusions

a. These procedures are not applicable to bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; contractor-owned and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale accountable record; IPE reportable to the DIPEC; National Security Agency/Central Security Service assets; and National Defense Stock Pile assets.

b. Physical inventory control procedures for bulk petroleum are contained in DoD 4140.25-M (reference (r)) .

c. Nuclear weapons for which DoD has custodial responsibility are inventoried in accordance with JCS Pub 6 (reference (s), Volume II, Part 4, Section 5).

B. POLICY

DoD policy is contained in **DoDI** 4140.60, (reference (t)).

c. PHYSICAL INVENTORY **PROCEDURES**

1. The nature of inventory inaccuracies and the cost of counting and reconciliation require that the approach to the taking of physical inventory be more selective than the 100 percent wall-to-wall total item count concept. Available inventory resources must be directed toward those discrepancies, controlled inventory items, and high usage items for which the maximum returns will be derived from the resources which are applied.

2. DoD Components will conduct scheduled inventories on all items for which they are accountable, as follows:

a. Items subject **to physical** inventory not less than once each fiscal year:

(1) Controlled inventory items (see figure 7-2). **The following controlled inventory items require complete physical inventory and & not qualify for use of a random statistical sampling** approach:

- (a) *Top secret.*
- (b) *Narcotics, drug abuse items, and alcohol.*
- (c) *Category I nonnuclear missiles and rockets (semiannually in accordance with DoD 5100. 76-M (reference (old))).*
- (d) *Precious metals.*
- (e) *Small arms.*
- (f) *Radioactive items.*
- (g) *Inert nuclear ordnance materiel.*
- (h) *Other items that may be designated by OSD or the DoD Component .*

(2) **If** ammunition or **subsistence is** sub jected to **complete** inventory, physical inventory and location survey may be conducted concurrently.

(3) **Controlled inventory items not subject to annual complete physical inventory must be subjected to annual random statistical sampling. Acceptable statistical sampling techniques are widely prescribed and may be used so long as every item included in the population has an equal probability of being selected in the sample. The statistical sampling technique must provide reasonable assurance (as a minimum) that the property accountability records are 85 percent accurate (95 percent for ammunition) with a 95 percent level of confidence, and a maximum margin of error of 2 percent. Sample inventories which do not satisfy the above criteria will be subjected to complete physical inventory of the population from which the sample was selected.**

b. Items not otherwise scheduled for a complete inventory or annual **random statistical sampling (subparagraph C. 2. a. )** wi ll be subject to either a random sampling or a selective physical inventory system which includes all items as potential candidates for inventory but which predominantly selects those items with the greatest significance for supply support as determined by the Service/Agency.

3. The random sampling technique will be guided by the following criteria:

a. If used, a minimum of one-third of those items not inventoried by other means shall be the universe for performing sample inventories each year and each item will be included at least once in the sample universe during a 3-year period.

b. Samples which do not meet the DoD acceptable accuracy level of 85 percent (with a 95 percent confidence level) will be subjected to a total item inventory not later than 90 calendar days following the month in which the sample fails to meet the established level. Accuracy level quantities will be established based on sample size as indicated in M1L-STD-105 (reference (u)).

c. The inaccuracies to be used as the basis for measuring performance will be only those major variances which have been properly classified after due consideration of all infloat documentation.

d. When resources permit, DoD Components may impose a more stringent major variance rule for greater internal control.

4. Physical Inventory procedures will provide the required asset-to-record accuracy with positive control of materiel and documentation which are infloat, including materiel release orders, receipts, catalog and other data **changes**, etc. PICDs and PIICDs must be established, and the ability to strike the accountable record balance and to identify and consider all pre-inventory and post-inventory actions must exist. Storage activities will observe the **established PICD** and transmit the **DI Code DKA Physical Inventory Count** transactions to the ICP within **30** calendar days subsequent to the **PICD**. See paragraph C.10. regarding rescheduling inventories.

5. Physical inventory and requisition processing systems/procedures will be designed to enhance inventory effectiveness as follows:

a. The volume of infloat accountable documents during the period required for an item count will be minimized by suspending the issue of low priority materiel release transactions for items undergoing inventory. **Materiel will be released for items undergoing inventory when such release is necessary to meet the order/ship timeframes prescribed by DoD 4140.1-R (reference (v)), to include the recognition of the RDD.**

b. The time required for inventory will be reduced through the optimum design of sample size.

c. The potential for count inaccuracies will be reduced by conducting pre-inventory planning to include:

(1) Actions to ensure location integrity by correcting such situations as **unbinned/loose** materiel; questionable identity of materiel in location; and multiple conditions, shelf-life (including date of pack/date of expiration), and/or materiel lots stored in a single location.

(2) Document cleanup to ensure to the extent possible that adjustments and transaction reversals are posted to the **record**, inprocess receipts are stored in location, and related transactions are transmitted to the ICP prior to the established physical inventory cutoff date.

6. All receipts accomplished during the inventory period for which materiel is placed in stock, recorded on the custodial **records**, and included in the inventory count will be accounted for as pre-inventory transactions. Internal procedures will be established to prescribe the criteria to account for the inventory count, and to control and process the receipt documents.

7. Type of physical inventory/transaction history codes are provided to permit identification of the types of inventories and/or to indicate custodial balance and transaction history transmission requirements. The appropriate code from appendix B3 will be entered in record position 7 of DI Codes **DJA**, **DJB**, **DKA**, **DZJ**, and **DZK** transactions.

8. A scheduled or unscheduled inventory may be requested by one inventory manager, APO or APO designated representative or storage activity for commingled assets belonging to more than one Service/Agency owner. When commingled assets are to be inventoried, the storage activity will provide a DI Code **DJB** Inventory Notification, prepared in the appendix **C17** format, to the affected owners/managers. Instructions regarding the preparation and transmission of the **DJB** notification are contained in subparagraph **C.9.d**. When commingled assets are owned by multiple managers within a single Service/Agency, use of the inventory notification is optional.

#### 9. Unscheduled Inventories

a. Before a special physical inventory is requested by authorized personnel, the date that the last inventory was taken will be determined. If an inventory has been taken within the past 90 days, an effort will be made to construct a transaction history and from it

determine what the item asset position should be or what discrepancy may have caused an imbalance. Only when these efforts fail to produce satisfactory results will special inventories be generated. The procedure for restricting special inventories may be waived when the inventory manager has recorded backorders for the item involved. Special inventories will be requested by transmitting to storage activities DI Code DJA Physical Inventory Request transactions which are prepared in the appendix C16 format and which cite Type of Physical Inventory/Transaction History Code C in record position 7. When information for a specific supply condition code is required, cite code D in record position 7 of DI Code DJA. When punched card transactions are used, they will be prepared on general purpose cards.

b. Spot inventories will be accomplished as a result of a total or partial materiel denial.

c. When an unscheduled inventory is requested for commingled assets, storage activities will transmit DI Code DJB Physical Inventory Notifications to affected managers as prescribed in preceding paragraph C.8.

d. DI Code DJA Physical Inventory Requests (see appendix C16) and DI Code DJB Physical Inventory Notifications (see appendix C17) will cite a PIICD in record positions 35-38 and a PICD in record positions 61-64. These dates will be used to strike the accountable record balance, initiate controls over inprocess materiels and transactions, and determine whether the inventory count is in agreement with the inventory record balance. The physical inventory infloat control date must precede the physical inventory cutoff date by not less than 5 days. Physical Inventory requests and notifications must be forwarded to the intended recipient at least 1 day preceding the physical inventory infloat control date. DoD Components may establish other time standards for these dates within distribution systems under their control.

e. Storage activities will observe the established PICD shown in the request/notification and transmit DI Code DKA Physical Inventory Count transactions to the ICP within 10 calendar days subsequent to the PICD .

10. Rescheduling Inventories. When the storage activity cannot meet the established inventory timeframe (e.g., when a request has been received and the schedule cannot be met or sufficient time does not remain to notify other affected owners/managers), the storage activity will reschedule the inventory. In such instances, the storage activity will provide a DI Code DJB Inventory Notification to each affected

owner/manager. Activities receiving DI Code DJB Inventory Notifications will take action to delete any previously established inventory controls, including physical inventory cutoff and infloat control dates, and establish new controls based on the data provided in the DJB notification.

11. **Recording Inventory counts**

a. Use Service/Agency prescribed forms to conduct inventories and record actual counts.

b. The **AMC Form** 1385 or **bar** code **label** balances may be used as the first count for ammunition.

c. After postcount validation and preadjustment research, the storage activity will update the custodial record. When the custodial record reflects more than one owner for commingled assets, the storage activity will attempt to determine where to apply any gain or loss. If a determination cannot be made, all gains and losses will be recorded on the custodial record for the DoD manager to the extent possible (i.e., a confirmed recorded loss may never exceed the recorded balance). If the manager is **non-DoD**, gains and losses will be prorated among owners having balances. Foreign owners will incur no gains or losses as a result of inventory adjustments. When foreign-owned assets are the only remaining balance, the ICP will effect resolution in accordance with existing DoD policy.

12. **Reporting Inventory Counts**

a. Inventory counts will be transmitted on DI Code **DKA** Physical Inventory Count transactions prepared in the format prescribed in appendix **C19**. When punched card transactions are used, they will be prepared on general purpose cards.

b. When the type of physical inventory code (appendix B3) is other than D or F and the count results in a zero balance for all conditions the storage activity will submit one count transaction for the NSN citing a zero quantity and a blank supply condition code. If there is a positive count for any condition, the storage activity will submit one count transaction for each condition having a positive balance for the NSN.

c. When the type of physical inventory code is D or F (single condition only) and the count results in a zero balance for that condition, the storage activity will submit a count transaction citing

zero quantity and perpetuate the supply condition code cited in the request. Otherwise, the storage activity will submit one count transaction for the condition cited in the request.

d. DoD Component policies and inter-Service/Agency agreements prescribe the basis for segregating materiel in storage. When materiel is maintained in segregated storage, the appropriate codes for the segregated stock will be entered in the count transaction(s) as prescribed in appendix C19. Enter Management Code N in record position 72 of each count transaction when the quantity reflects a balance from a noncommingled storage location(s) . When the custodial record reflects more than one owner for commingled assets, the storage activity will submit count transactions to each owner. If the count resulted in a zero balance for all conditions, submit one count transaction with a blank supply condition code to each owner. Enter Management Code Y in record position 72 of each count transaction when the quantity reflects a balance from a commingled storage location(s) .

e. When subsequent research reveals that a previous accountable transaction(s) was not recorded against an owner/manager balance, the owner/manager will take corrective action and advise the storage activity to initiate corrective action locally, if appropriate (e.g., reverse the original inventory adjustment(s) and post the missing **transaction(s)**), and submit revised inventory count transactions to owners/managers as necessary.

### 13. Reconciliation of Inventory Counts With Accountable Records

a. Reconciliation of the inventory count with accountable records will be the responsibility of the ICP.

b. The intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation of inventories may be accomplished by a match of the storage activity onhand balance record (which has been verified by a physical count) and the ICP accountable record.

c. The intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) inventory reconciliation process may include the consideration of transactions processed by the ICP and the storage activity for 15 calendar days prior to the time the count data are recorded on the storage activity record. When DoD Component procedures require automatic depot submission of 15 calendar days transaction history along with the DI Code DKA inventory count **transaction(s)**, the DI Code DZK Transaction History Transmittal will be



used to submit the history data. The DI Code DZK transaction will be prepared in the appendix C61 format and will cite Type of Physical Inventory/Transaction History Code W in record position 7 to identify automatic history submission.

d. DoD Component policies and inter-Service/Agency agreements prescribe the basis for segregating materiel 'in storage. When materiel is maintained in segregated storage, the storage activity enters the appropriate codes for the segregated stock in the count transaction(s) as prescribed in appendix C19.

e. After postcount validation and preadjustment research, the storage activity updates the custodial record. When the custodial record reflects more than one owner for commingled assets, the storage activity attempts to determine where to apply any gain or loss. If a determination cannot be made, all gains and losses will be recorded on the custodial record for the DoD Manager. If the manager is non-DoD, gains and losses will be prorated among owners having balances. Foreign owners will incur no gains or losses as a result of inventory adjustments. When foreign-owned assets are the only remaining balance, resolution will be in accordance with existing DoD policy. When an owner/manager determines that a count is erroneous because an accountable transaction did not update a custodial record owner/manager balance, the owner/manager will take corrective action and advise the storage activity to initiate corrective action locally, if appropriate (e.g., reverse the original inventory adjustment(s) and post the missing transactions), and submit revised counts to owners/managers as necessary.

f. ICPS will generate and process the necessary increase or decrease inventory adjustment transactions against the accountable records. Inventory adjustment transactions will be prepared in the appendix C4 format and will cite DI Code D8A or D9A, as appropriate.

14. Reconciliation of Accountable Records with Financial Value Records. Services/Agencies will internally prescribe procedures to reconcile accountable record property values with financial record values to ensure compatibility of the total inventory value reflected by these records and associated reports.

15. **Requesting and Reporting Recounts**

a. When recount is required, the ICP will prepare a DI Code DJA Physical Inventory Request transaction in the appendix C16 format citing Management Code M to indicate a request for recount.

b. Storage activities will perform the recount actions and will report the count to the ICP within 5 calendar days subsequent to the physical inventory cutoff date in the request using the DI Code DKA Physical Inventory Count transaction. The transaction will be prepared in the appendix C19 format and will cite Management Code M to indicate submission of a recount.

c. Recount is not required when the value of the variance for the NSN is \$800 or less and the item is not controlled.

D. RESEARCH OF **POTENTIAL** OR ACTUAL PHYSICAL INVENTORY **ADJUSTMENTS**

1. DoD Components will ensure that potential or actual adjustments are researched in accordance with the value of the adjustment and type of item involved. A reduction of the **volume** of erroneous adjustments can only be achieved by conducting specified degrees of research before posting the adjustment transaction. The DoD criteria for this research are set forth in figure 7-1 and will be used as the basis for selective research by activities accountable for supply system materiel. More stringent research requirements may be imposed by DoD Components based upon the limits of resources available and upon specific asset control problems.

2. Analysis of inventory adjustments is vital in order to:

a. Provide the item manager with some indications of the failures in the control systems so improvements can be made.

b. Reduce similar discrepancies in the future.

c. Ensure that the proper adjustment was made.

d. Evaluate indicators of trends or system problems for corrective action.

3. Timely completion of the research of potential adjustments is essential. Delay only increases the complexities of adequate research and reduces the probability of conclusive research. DoD Components shall specify the maximum timeframes which will be permitted for completion of research before the adjustment is processed to the accountable record.

4. When circumstances prevent implementation of the criteria set forth in figure 7-1 and reduced adjustment criteria are required, the DoD Components taking exception will submit their alternative research criteria to the DoD MILSTRAP System Administrator with justification for the proposed change.

5. For intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation of inventories, the ICP may request transaction history and/or custodial balances from the storage activity for analyzing inventory discrepancies. The history/balance will be requested using a DI Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing the appropriate Appendix B3, Type of Physical Inventory/Transaction History Code, in record position 7. When transaction history is requested the transaction history timeframe (start date and number of prior days history required) will be entered in record positions 25-31. The storage activity will provide the transaction history data using the DI Code DZK Transaction History Transmittal prepared in the appendix C61 format. The transmission media will be determined from the Appendix B17, Type of Media Code, entered in record position 60 of the DI Code DZJ request. The storage activity will provide custodial balances using the DI Code DKA Physical Inventory Count transaction; the Type of Physical Inventory/Transaction History Code Y or Z in record position 7, perpetuated from the DI Code DZJ request, will identify the quantity entered as a custodial balance only.

6. Once the causes of potential/actual inventory adjustments are determined by causative research, they will be classified, analyzed, and evaluated so action may be taken to correct the situation which caused the error. Error classification codes may be entered in intra-Service/Agency transactions and in record positions 73-75 of Physical Inventory Count Transactions (DI Code **DKA**) and record positions 63-65 of Inventory Adjustment Transactions (DI Codes **D9\_/D9\_**). For analysis and evaluation, error conditions will be identified to the operation in which they occurred (e.g., receiving, issue, etc.) and classified by type within each operation. For reporting purposes, each operation and each error type have been identified by an alphabetic or numeric code as shown in appendix B18. The error classification system is structured to provide the Services/Agencies the latitude to amplify the DoD defined error

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classifications; however, the capability to summarize internally defined error classifications to the appropriate DoD classification must be maintained.

7. Unresolved physical inventory loss adjustments for controlled inventory items will be referred to security officials of the storage activity from which the loss occurred to determine whether there is probable cause to suspect theft.

8. MILSTRIP (reference (h)) prescribes DoD standard document formats, data codes, and criteria for the preparation and processing of materiel release denials at storage activities and inventory control points. To facilitate research for ascertaining the validity of materiel denials, a **denial** suspense procedure will be implemented by the ICP. The suspense procedure shall, as a minimum, designate an organization responsible for:

a. Allowing a time delay, between the discovery of the potential discrepancy which resulted in denial and processing of an **accountable** record adjustment, to perform research.

b. Prescribing a time limit, not to exceed 30 calendar days, on the period a potential discrepancy may remain suspended.

#### **E. REVERSAL OF INVENTORY ADJUSTMENTS**

Reversal of DI Code D8A/D9A inventory adjustments is a required capability which must be implemented with proper controls and supported by proper documentation. (See appendix C, page C-1, for processing adjustment reversals.) Procedures for reversing adjustments will contain, as a minimum, the following control features:

1. Reversals required to correct inventory records when posting previously unposted or incorrectly posted supply transactions (e.g., receipts, issues, etc.), regardless of age are limited to those transactions that can be properly documented to reference the specific transaction document number(s) that will be processed to offset the reversal.

2. Reversals required to correct physical inventory adjustments which were made based on incorrect/incomplete information are limited to 2 years from the date of the original adjustment. All reversals must be properly documented.

3. Reversals will not be processed solely on the basis of a previous offsetting physical inventory adjustment.

4. Reversals against transactions processed within the adjustment reporting period will be separated and identified to report:

- a. Gross adjustment during the current period,
  - b. Reversal of prior quarters' adjustment transactions,
  - c. Reversal of current quarters' adjustment transactions,
- and
- d. Total value of net adjustments during the current period (i.e., value of net gains added to value of net losses).

#### **F. LOCATION AUDIT PROGRAM**

Each DoD Component will implement a location audit program which will consist of both a location survey and a location reconciliation. The DoD acceptable accuracy goals are (a) Location Survey Accuracy--97 percent, and (b) Location Reconciliation Accuracy--97 percent. DoD Components may impose more stringent standards internally.

##### **1. Location Audit Program Errors**

a. There are three types of errors uncovered in the location audit program.

(1) **Type 1.** Accountable/custodial records which show a positive stock balance with no supporting locator record, locator record established with no physical assets in storage, or physical assets in storage with no supporting locator record.

(2) **Type 2.** Locator record with no supporting accountable record (location reconciliation error only) .

(3) **Type 3.** Mismatch of any of the following data elements (when optional elements are included in the location survey or location reconciliation program, they **will** be used in calculating the accuracy rate) :

(a) Unit of issue.

(b) Supply condition code.

(c) NSN has been deleted or is under the cognizance of another inventory manager.

(d) Ownership code. <sup>1/</sup>

(e) Controlled inventory item code (see appendix B19).  
(For location survey, verification of the code will consist of ensuring that assets are stored in areas providing the degree of security commensurate with the assigned code.)

(f) Shelf-life code.

(g) Quantity (optional).

(h) Type of pack code (for subsistence only). (See appendix B19.)

(i) Inventory category code (optional) . <sup>2/</sup>

b. Errors will be subject to validation research before they are counted as errors. Location audit program results will be reported in the Inventory Control Effectiveness Report as prescribed in section J. Only one error per surveyed location and one error per location reconciliation line item with discrepancies is to be reported; however, DoD Components will collect and analyze all Type 3 errors by element.

## 2. Location Survey

a. Location survey requires a physical verification, other than actual count, between actual assets and recorded location data to ensure that all assets are properly recorded as to location, identity, condition, shelf-life code, and unit of issue. As an option, Services/Agencies may include a quantity comparison for physical inventory purposes. In some instances, location survey and physical inventory will be conducted concurrently for ammunition.

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<sup>1/</sup> For location reconciliation only.

<sup>2/</sup> See footnote 1 above.

b. A complete location survey of all items at each storage activity will be conducted not less than once each fiscal year and more frequently if the need is indicated.

c. The proper sequence of operating a location survey requires the comparing of assets found in storage locations with locator records. This sequence of operation is important to detect assets in unrecorded locations.

d. As an objective, it is desirable to identify items to inventory lots or segments. Lots/segments will be of a manageable size (number of items) to permit location survey in a minimum time period, to ensure maximum uninterrupted service to customers, and to obtain the greatest degree of accuracy from the location survey.

e. Items within a lot/segment which have been subject to a complete item inventory will be considered to have satisfied the annual survey requirement when the entire lot/segment is located in a clearly designated, coterminous warehouse space. These inventoried lots/segments may be excluded from the complete survey for the fiscal year in which they were counted.

f. When permanent locations are reserved for items, recorded locations which are unoccupied should be identified and/or verified during the location survey. These records should be appropriately coded or deleted from the location reconciliation.

g. To measure the accuracy of the results of the location survey, discrepancies will be classified in one of the three categories listed below. Only one error is charged when a locator record deletion and/or established and/or correction is required for the same location (i.e., one error per NSN per location). When the NSN and actual assets differ, the discrepancy will be classified as a locator established action only.

(1) Locator record deletion. The removal or change of a locator record when there is a recorded location but no physical assets--unless the location is being held open for new receipts. (Type 1 Location Audit Program Error.)

(2) Locator record established. The recording of locations when assets are physically found in storage and no locator records exist, or when the recorded NSN disagrees with the materiel in the location. (Type 1 Location Audit Program Error.)

(3) Locator record corrected. Changes to the locator record when physical asset identification characteristics differ on the elements identified in section F.1.a. (3) as applicable to location survey. (Type 3 Location Audit Program Error.)

3. Location Reconciliation

a. Location reconciliation requires a match between valid storage activity records and the accountable records in order to identify and to correct situations where (a) items are in physical storage but not on record, (b) on record but not in storage, and (c) where common elements of data (may include quantity) do not match. Mismatches will be researched and special inventories conducted when required to effect corrective action.

b. A location reconciliation will be conducted not less than once each fiscal year.

(1) An intra-Service/Agency location reconciliation will be scheduled by each DoD Component.

(2) An inter-Service/Agency location reconciliation will be conducted when items are stored by one DoD Component for another DoD Component which manages and accounts for the items. Inter-Service reconciliation requests will be prepared on the first Tuesday in September and transmitted no later than the 15th day of September <sup>3/</sup>. Due to the nature of the ammunition program and to the magnitude of DLA items positioned at Service storage sites, the reconciliation schedule at these storage locations pertaining to ammunition and DLA items will be as mutually agreed to by the SMCA/DLA and applicable Service. (See Joint Regulation DLAM 4140.2/AR 735-110/NAVSUPINST 4400.79/MCO P4400.101, Volume I for DLA items (reference (w)).)

c. Storage activities will prepare location reconciliation request transactions by condition for each NSN in the item locator file. Location reconciliation requests will be identified by DI Code DZH and will be prepared in the appendix C59 format. For intra-Service/Agency requests (or inter-Service/Agency requests when agreed by the DoD

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<sup>3/</sup> When quantity is included based on agreement of the DoD Components involved, the actual cutoff date will be negotiated each year by the affected DoD Components.



Components involved) the reconciliation request may include the **applicable** quantity for the owner/manager in record positions 25-34. The reconciliation requests will be transmitted to the ICPS that are accountable for the items. Intended recipients of reconciliation requests will be advised of the total number of transactions being forwarded. The intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) location reconciliation process may include the consideration of transactions processed by the ICP and the storage activity for 15 calendar days prior to the reconciliation cutoff date. When DoD Component procedures require automatic depot submission of 15 calendar days transaction history along with the DI Code DZH Location Reconciliation Request transaction(s), the DI Code DZK Transaction History Transmittal will be used to submit the history data. DI Code DZK transactions will be prepared in the appendix C61 format and will cite Type of Physical Inventory/Transaction History Code W in record position 7 to identify automatic history submission.

d. Recipients of location reconciliation requests will match the requests to the accountable item records. All initial rejects/mismatches from the location reconciliation match should be researched immediately to assure consideration of all infloat documents. For intra-Service/Agency (or inter-Service/Agency based on agreement of the DoD Components involved) reconciliation, the ICP may request transaction history and/or custodial balances from the storage activity for analyzing discrepancies. The history/balance will be requested using a DI Code DZJ Transaction History/Custodial Balance Request, prepared in the appendix C60 format, citing the appropriate Appendix B3, Type of Physical Inventory/Transaction History Code, in record position 7. When transaction history is requested, the transaction history timeframe (start date and number of prior days history required) will be entered in record positions 25-31. The storage activity will provide the transaction history data using the DI Code DZK Transaction History Transmittal prepared in the appendix C61 format. The transmission media will be determined from the Appendix B17, Type of Media Code, entered in record position 60 of the DI Code DZJ request. The storage activity will provide custodial balances using the DI Code **DKA** Physical Inventory Count transaction; the Type of Physical Inventory/Transaction History Code Y or Z, perpetuated from the DI Code DZJ request, will identify the quantity entered as a custodial balance only.

e. When record mismatches for other than controlled items are discovered during the location reconciliation program, adjustments may be processed to the accountable record under the following conditions:

(1) When the Service/Agency system includes quantity in the location reconciliation and the storage activity and ICP transaction history are compared for mismatches back to the last reconciliation or inventory, whichever is sooner, the accountable record may be adjusted without special inventory when the extended value of the variance is \$800 or less for Type 1 and Type 2 errors. If a history comparison is not made, automatic adjustments without special inventory will be limited to variances of \$100 or less. (See section E. for processing adjustment reversals.)

(2) When the Service/Agency system does not include quantity in the location reconciliation, the accountable record may be adjusted without special inventory when the extended value of the variance for Type 1 errors is \$100 or less. For Type 2 errors, a special inventory must be requested.

f. Required special inventories as a result of location reconciliation mismatches should be accomplished immediately.

g. When a discrepancy is identified during the location reconciliation program, the following transactions, as appropriate, will be transmitted to the submitting activity:

(1) DI Code DZG Transaction Reject as prescribed in chapter 9 and prepared in the appendix C58 format.

(2) DI Code DZB Storage Item Data Correction as prescribed in chapter 10 and prepared in the appendix C53 format.

(3) DI Code DJA Request for Inventory (special) as prescribed in section C.9. and prepared in the format shown in appendix C16.

h. To measure the accuracy of the results of the location reconciliation program, discrepancies will be classified in one of the three categories listed below (report only one error per location reconciliation line item with discrepancies) :

(1) Accountable record reflects balance for storage activity; no location reconciliation received. (Type 1 Location Audit Program Error.)

(2) Location reconciliation received from storage activity; accountable record reflects no balance. (Type 2 Location Audit Program Error. )

(3) Mismatch on the elements identified in section F.1. a. (3) as applicable to location reconciliation. (Type 3 Location Audit Program Error. )

#### G. RETENTION OF ACCOUNTABLE DOCUMENTATION

Audit capability is required for a period of time following the processing of documents and data and completion of the research effort. The following retention criteria will apply:

1. Source documents will be retained for at least 1 year. These include only accountability change documents such as receipts, issues, shipments, transfers, and supply condition code changes.

2. Registers, records, files, tapes and data will be retained for at least 2 years in a format useful for audit trail purposes. Automated inventory control systems will be designed to facilitate the printout of transaction histories which indicate the date the last physical inventory was conducted for each item. Backup documentation that directly pertains to individual cases of physical inventory adjustment research efforts will be retained for at least 1 year.

#### H. QUALITY CONTROL

1. DoD Components will establish a quality control program which encompasses the objectives of **DoDD** 5010.38 (reference (x)) and the physical inventory objectives as contained in **DoDI 4140.60** (reference (t)). Portions of the program can be accomplished during ongoing practices within inventory processes. The purpose of the program is to assist management in identifying those human, procedural, or system errors which adversely affect the wholesale asset accuracy and in achieving better control over physical assets and warehousing practices. Within the scope of this quality control program, those work processes directly related to the control of physical assets will be monitored to assure acceptable levels of performance. Accordingly, all quality control programs will ensure that the following work processes are included:

a. Warehousing practices--to include checks of storage practices, stock rotation, shelf life, identification of materiel in

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storage, mixed stock, and location accuracy. Separate but identical quality checks will be made following any major rewarehousing projects.

b. Receiving practices--to include checks of documentation, materiel identity, quantity, materiel supply condition code, processing timeliness, and verification of daily input data to the location system.

c. Issuing practices--to include checks of legibility of issue documents, accuracy of stock selection as to identity, quantity, unit of issue, shelf life, supply condition code, type of pack (subsistence only), marking of outgoing shipments, and release to carriers.

d. Validity of automated data--to include checks of all receipt, issue, and adjustment transaction data entries against input documentation.

e. Inventory practices--to include checks of all inventory counts, location surveys, location reconciliations, causative **research**, and adjustments at both the ICP and storage activities.

f. Catalog practices--to include checks of all catalog change processing, using the affected recorded locations as the universe.

g. Locator file updates--to sample the accuracy of changes posted to the locator file (e.g., all additions, deletions, and changes of unit of issue, supply condition code, shelf life, etc.) at least weekly.

2. Whenever possible, quality control checks of these work processes will include identification of the individual performing the tasks to provide a means to motivate improved individual performance.

3. Continued command management emphasis and review of performance are essential for the success of the quality control program. Command managers must ensure effective organizational inter-relationships among the functional elements concerned with the physical inventory control program such as: comptroller, data systems, transportation, warehousing maintenance, quality control, and supply management. When quality control checks reveal that the level of accuracy for an operation does not meet a DoD prescribed accuracy goal, appropriate command corrective action will be directed.

## **I. REPORT OF INVENTORY CONTROL EFFECTIVENESS**

1. Each DoD Component will prepare Reports of Inventory Control Effectiveness, as formatted in appendix A5, for each quarterly period ending December 31, March 31, June 30, and September 30. Submit a separate report, so identified in the top line, to reflect the values and performance statistics for ammunition, and omit these figures from the general report for DoD wholesale supply system materiel. Reports will:

a. Be prepared in accordance with the instructions in section J. When goals are not achieved, the report will be accompanied by a narrative analysis of the trends and significant comments on physical inventory control performance reflected in the report to include major error causes and corrective action initiated.

b. Reflect inventory control performance for all DoD wholesale supply system assets of principal and secondary items (including package fuels) less all materiel exclusions listed in **DoDI 4140.60** (reference (t)) (i.e., bulk petroleum, complete ships, aircraft, ballistic missiles, nuclear weapons, and space vehicles; contractor-owned and/or contractor-operated facilities for which the assets are not maintained on the DoD wholesale accountable record; IPE reportable to the DIPEC; and National Security Agency/Central Security Service assets) .

c. Be submitted in an original and 1 copy to the **Defense Logistics Management Standards Office, ATTN: DLMSO-DS, 6301 Little River Turnpike, Suite 230**, Alexandria, Virginia 22312-3508, not later than 75 calendar days following the end of the reported quarter. The above reporting requirement has been assigned RCS DD-P&L(Q) 935.

2. Source data used in the reporting of stock fund inventory transactions which are governed by separate instructions in accordance with DoD 7420.13-R (reference (y)) will also be used in preparing this report. Transaction data governed by DoD 7220.9-M (reference (z)) will be used in preparing this report.

## **J. INSTRUCTIONS FOR PREPARING THE REPORT OF INVENTORY CONTROL EFFECTIVENESS**

The following instructions are provided for preparing the ICE Report, RCS DD-P&L(Q) 935, appendix A5:

**1. Report Heading/Columns**

a. **Reporting Organization.** Enter the name of the reporting DoD Component.

b. **Quarter Ending.** Enter the date on which the quarterly report period ends. The columnar data will reflect performance during the quarterly period covered.

c. **Fiscal Year to Date.** Enter the last two digits of the fiscal year. The columnar entries will reflect cumulative data for the fiscal year through the end of the reporting period.

**2. Columnar Entries**

a. **Materiel Denials.** Reflects the ratio of denials to line items directed for shipment.

(1) **Line Items Directed for Shipment.** Enter the total number of line items directed for shipment based on accountable record assets.

(2) **Materiel Denials.** Enter the number of total quantity and partial quantity denials received on lined items directed for shipment. All denial transactions classified by MILSTRAP issue transaction denial Management Codes 1 through 7, excluding 4 for ammunition only (appendix B7), will be included in the total.

(3) **Percentage of Materiel Denials.** Compute this figure by dividing the materiel denials by the line items directed for shipment and multiplying by 100 (preceding subparagraph a(2) / a(1) x 100) . The DoD performance goal for the materiel release denial rate is 1 percent.

b. **Receipt Processing Performance.** Reflects the ratio of total line item receipts to those which are posted to the accountable records and effectively stored within the MILSTRAP time standards prescribed by chapter 4, section F.

(1) **Number of Receipts Stored and Posted.** Enter the total number of line item receipts store and posted to the accountable records during the period.

(2) **Number of Receipts Stored and Posted on Time.** Enter the total number of line item receipts which were effectively stored and posted to the accountable records within the MILSTRAP timeframes.

(Effective storage occurs on the date when proof of storage is recorded or issue from the receiving line is accomplished.)

(3) Percent of Receipts Stored and Posted on Time. Compute this figure by dividing the total number of receipts stored and posted on time by the total number of receipts and multiplying by 100 (preceding subparagraph b(2) / b(1) x 100) . The DoD performance goal for storing and posting receipts on time is 90 percent.

c. Location Audit Program. Reflects the results of the location survey (ratio of accurate storage activity locator records to storage activity locations surveyed) and the location reconciliation (ratio of valid storage activity locations to master item records).

(1) Number of Locations Surveyed. Enter the number of storage activity item locations surveyed.

(2) Number of Surveyed Locations With Discrepancies. Enter the total number of location discrepancies as defined in preceding paragraph F.1. and subparagraph F.2.g. (report only one error per NSN per location) .

(3) Location Survey Accuracy. Compute this figure by dividing the total locations with discrepancies by the total locations surveyed, multiplying by 100, and subtracting the result from 100 percent (100 - (preceding subparagraph c(2) / c(1) x 100)). The DoD goal for location survey accuracy is 97 percent.

(4) Number of Location Records Reconciled. Enter the total number of valid location records reconciled (i.e., the sum of NSNS on the accountable record and NSNS which were not on the accountable record but were on the depots' records) .

(5) Number of Location Reconciliation Line Items With Discrepancies. Enter the number of discrepant location records as defined in preceding paragraph F.1. and subparagraph F.3.i. (count one error per location reconciliation request or unmatched accountable record) .

(6) Location Reconciliation Accuracy. Compute this figure by dividing the number of discrepancies by the number of records reconciled, multiplying by 100, and subtracting the result from 100 percent (preceding subparagraph c(5) / c(4) x 100)). The DoD goal for location reconciliation accuracy is 97 percent.

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d. **Physical Inventory Program Line Items.** Reflects the accuracy of the physical inventory program.

(1) **Total Inventories Completed.** Enter the total number of line items inventoried (scheduled and unscheduled) . For sample inventories, include only those line items in the lot which are actually counted.

(2) **Line Items With Major Inventory Variances.** Enter the total line items inventories (scheduled and unscheduled) which had a major inventory variance.

(3) **Inventory Accuracy Rate.** Reflects the percent of lines inventoried which did not have a major inventory variance. Compute this figure by dividing the lines with a major inventory variance by the total lines inventoried, multiplying by 100, and subtracting from 100 percent (preceding subparagraph d(2) / d(1) x 100).

e. **Monetary Value of Physical Inventory Program.** Reflects the monetary value of items being inventoried.

(1) **Average Value of the Inventory.** Enter the average value of onhand assets as reflected on financial records for the 12 months prior to the report cutoff date (i.e., current quarter plus past three quarters) .

(2) **Value of Line Items Inventoried.** Enter the extended value of line items inventoried (scheduled and unscheduled) during reporting period (extended value of items shown in subparagraph J.2.d. (1), above).

(3) **Value of Inventory Adjustments**

(a) **Value of Inventory Gains.** Enter the total monetary value of increases to accountable stock record balances as a result of physical inventory. Compute the Quarter Ending value of inventory gains by netting the current reporting period values for inventory gain adjustments and for inventory gain adjustments reversed within 365 days of the original adjustment transaction (reversal of adjustments aged over 365 calendar days is not permitted) . Compute the FY to Date value of gains by adding the Quarter Ending value of inventory



gains (computed above) to the prior quarter FY to Date value of inventory gains. <sup>4/</sup>

(b) Value of Inventory Losses. Enter the total monetary value of decreases to accountable stock record balances as a result of physical inventory. Compute the Quarter Ending value of inventory losses by netting the current reporting period values for inventory loss adjustments and for inventory loss adjustments reversed within 365 calendar days of the original adjustment transaction (reversal of adjustment aged over 365 calendar days is not permitted). Compute the FY to Date value of losses by adding the Quarter Ending value of inventory losses (computed above) to the prior quarter FY to Date value of inventory losses. <sup>5/</sup>

(c) Value of Gross Inventory Adjustments. Determine the arithmetic sum of the monetary value of increases and decreases to accountable stock record balances as a result of physical inventory. Compute the Quarter Ending value of gross adjustments by adding the absolute values of the Quarter Ending value of gross adjustments by adding the absolute values of the Quarter Ending inventory gains and losses subparagraphs e.(3) (a) and (b) above). Compute the FY to Date value of gross adjustments by adding the Quarter Ending value of gross adjustments (computed above to the prior quarter FY to Date value of gross adjustments. <sup>6/</sup>

(d) Value of Inventory Gain Reversals

[1] Reversal of Current Quarter Gains. Enter the total monetary value of decreases to the accountable stock record balances as a result of reversing gain adjustments processed during the reporting period.

[2] Reversal of Prior Quarters' Gains.. Enter the total monetary value of decreases to the accountable stock record balances as a result of reversing gain adjustments reported in prior quarters.

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<sup>4/</sup> In the first report of each fiscal year, the prior quarter FY to Date value will always be zero.

<sup>5/</sup> See footnote 4 above.

<sup>6/</sup> See footnote 5 above.

**(e) Value of Inventory Loss Reversals**

[1] Reversal of Current Quarter Losses. Enter the total monetary value of increases to the accountable stock record balances as a result of reversing loss adjustments processed during the reporting period.

[2] Reversal of Prior Quarters' Losses. Enter the total monetary value of increases to the accountable stock record balances as a result of reversing loss adjustments reported in prior quarters.

**(4) Gross Adjustments as a Percent of:**

(a) Average Value of the Inventory. Compute this figure by dividing the value of the gross adjustments by the average value of the inventory and multiplying by 100 (preceding subparagraph e.(3) (c) / e.(1) x 100).

(b) Value of Line Items Inventoried. Compute this figure by dividing the value of the gross adjustments by the value of line items inventoried and multiplying by 100 (preceding subparagraph e.(3) (c) / e.(2) x 100).

## DECISION RULES

### MINIMUM RESEARCH REQUIREMENTS FOR POTENTIAL OR ACTUAL PHYSICAL INVENTORY ADJUSTMENTS

(Figure 7-1)

CONDITION OF DISCREPANCY	REQUIRED RESEARCH		
	Post count Validation	Preadjustment Research (adjustment quantity determined)	Causative Research
1. $\leq \$800$	YES	YES <sup>7/</sup>	NO
2. $> \$800$ but $\leq \$16,000$	YES	YES	SAMPLE
3. $> \$16,000$	YES	YES	100%
4. <i>Controlled Inventory Item</i>	YES	YES	100% <sup>8/</sup>

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<sup>7/</sup> Research is not required for those adjusted actions resulting from a denial.

<sup>8/</sup> **Sample** causative research in lieu of complete causative research for pilferable item discrepancies valued up to \$2,500 may be accomplished at the discretion of the DoD Component.

**CONTROLLED INVENTORY ITEMS**

(Figure 7-2)

The following is a list of controlled inventory items which require a high degree of protection and physical inventory control. The DoD Components are expected to include additional items that are determined to require a similar degree of control:

a. Classified items.

b. Pilferable items.

c. Sensitive items:

(1) Narcotics and drug abuse items.

(2) Precious metals.

(3) Hazardous items.

(4) Arms :

(a) Handguns.

(b) Shoulder fired weapons.

(c) Light automatic weapons up to and including .50 caliber machine guns.

(d) **Recoilless** rifles up to and including 106mm.

(e) Mortars up to and including 81mm.

(f) Rocket launchers, **manportable** (see (h) below).

(g) Grenade **launchers**, rifle and shoulder fired.

(h) Individual operated weapons which are portable and/or can be fired without special mounts or firing devices and which have potential use in civil disturbances and are vulnerable to theft.

(5) Ammunition:

(a) Ammunition for weapons listed above.

- (b) Bulk explosives.
- (c) Ant itank and antipersonnel landmines.
- (d) Hand grenades.
- (e) Demolition charges and related items; e.g., blasting caps, detonating cord, safety fuses, detonators, destructors, primers, firing devices, **squibs**, igniters, demolition kits, explosive kits, etc.
- (f) Fuses.
- (g) Boosters.
- (h) Supplementary charges (not assembled to end items) .
- (i) Explosive bolts, explosive cartridges, and related items.
- (j) Safety and arming devices.
- (k) Incendiary destroyers.
- (l) Fuel thickening compound.
- (m) Riot control agent, bulk, 60 pound package or less.
- (n) Warheads and rocket motors (unpackaged weight of 60 pounds or less).
- (o) Missiles and rockets (unpacked weight of 60 pounds or less) .
- (p) End items of conventional and guided missile ammunition (except artillery rounds, bombs, and torpedoes) which have an individual item (i.e., unit of issue) container or package weight of 60 pounds or less and which have potential use in civil disturbances and are vulnerable to theft.